

MORRICE AREA SCHOOLS

MORRICE, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

	<u>PAGE</u>
Report of Independent Accountants	I
Management's Discussion and Analysis	II – VIII
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Fiduciary Fund	
Statement of Fiduciary Net Assets	5
Statement Of Changes In Fiduciary Net Assets	6
Notes to the Financial Statements	7 – 17
Required Supplementary Information	
Budgetary Comparison Schedules:	
General Fund	18
Other Supplemental Information	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	19
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	20
Combining Balance Sheet – Special Revenue Fund	21
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Special Revenue Fund	22
Combining Balance Sheet – Debt Retirement Fund	23
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Debt Retirement Fund	24
Individual Schedules of Revenues, Expenditures and Other Financing Uses:	
Schedule 1 - General Fund - Schedule of Revenues	25
Schedule 2 - General Fund - Schedule of Expenditures	26 – 29
Schedule 3 - Trust and Agency Fund – Schedule of Receipts and Disbursements – Student Activities	30 – 31
Schedule 4 - Trust and Agency Fund – Schedule of Receipts and Disbursements – Trust Funds	32 – 33
Schedule 5 - Schedule of Bond Principal and Interest Requirements	34 – 35
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

November 5, 2004

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Morrice Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morrice Area Schools as of and for the year ended June 30, 2004, which collectively comprise the Morrice Area Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morrice Area Schools management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Morrice Area Schools as of June 30, 2004, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2004, on our consideration of the Morrice Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1, the School District has implemented a new financial reporting model, as required by the provisions of the *GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages II through VIII and 18, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morrice Area Schools' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MORRICE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Morrice Area Schools, a K-12 school District located in Shiawassee County, Michigan, is in its first year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Morrice Area Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MORRICE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

District Wide Financial Statements: (Continued)

These two statements report the Morrice Area Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreased in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal year ended June 30, 2004:

NET ASSETS SUMMARY

	<u>2004</u>
<u>ASSETS</u>	
Current Assets	\$1,678,142
Non-Current Assets	<u>1,520,018</u>
<u>TOTAL ASSETS</u>	<u>\$3,198,160</u>
<u>LIABILITIES</u>	
Current Liabilities	\$1,515,793
Long-Term Liabilities	<u>904,953</u>
Total Liabilities	\$2,420,746
<u>NET ASSETS</u>	
Invested in Capital Assets - Net of Related Debt	526,845
Restricted - Debt Service	52,475
Unrestricted	<u>198,094</u>
Total Net Assets	<u>\$777,414</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$3,198,160</u>

MORRICE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

RESULTS OF OPERATIONS:

For the fiscal year ended June 30, 2004, the District wide results of operations were:

	<u>2004</u>
<u>REVENUES</u>	
<u>General Revenues:</u>	
Property Taxes Levied for General Operations	\$127,408
Property Taxes Levied for Debt Service	172,292
State of Michigan Unrestricted Foundation Aid	4,259,520
Other General Revenues	<u>27,186</u>
Total General Revenues	\$4,586,406
<u>Operating Grants:</u>	
Federal	161,645
State of Michigan	428,068
Other Operating Grants	<u>97,438</u>
Total Operating Grants	\$687,151
<u>Charges for Services:</u>	
Food Service	127,976
Athletics	30,260
Other Charges for Services	<u>29,948</u>
Total Charges for Services	<u>\$188,184</u>
Total Revenues	\$5,461,741
<u>EXPENSES</u>	
Instruction & Instructional Support	3,357,483
Support Services	1,854,413
Food Service	206,247
Athletics	45,110
Interest on Long-Term Debt	60,223
Depreciation	<u>112,631</u>
Total Expenses	<u>\$5,636,107</u>
<u>(DECREASE) IN NET ASSETS</u>	(\$174,366)
<u>BEGINNING NET ASSETS</u>	<u>951,780</u>
<u>ENDING NET ASSETS</u>	<u><u>\$777,414</u></u>

MORRICE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2004, the District's Total Net Assets decreased by \$174,366 to a total of \$777,414. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$5,865 as the payments of long-term debt exceeded increases in long-term debt and depreciation. The districts Unrestricted Net Assets decreased by \$185,003 during the year and the restricted portion of the net assets increased by \$4,772. The restricted Net Assets consist of the Investment in Capital Assets-net of related debt and the restricted debt retirement funds that may only be used to pay bonded debt. The unrestricted net assets may be used to fund the educational services provided to students.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$188,250 during the year with the decrease coming primarily in cash. Revenues for the year decreased by \$178,166, primarily from a reduction in state revenue. Expenditures and other financing uses increased by \$52,773, primarily from increased cost of salaries and fringe benefits. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)
The State of Michigan aid, unrestricted, is determined with the following variables:
 - a. State of Michigan State Aid Act per student foundation allowance
 - b. Student Enrollment - Blended at 80 percent of current year's fall count and 20 percent of prior year's winter count
 - c. The District's non-homestead tax levy.
2. Per Student, Foundation Allowance:
Annually, the State of Michigan establishes the per student foundation allowance. The Morrice Area Schools foundation allowance was \$6,700 per student for the 2003-2004 school year, the same as the prior year. The foundation allowance was decreased by \$74 per student from \$6,700 to \$6,626 as the result of an executive order by the governor.
3. Student Enrollment:
The District's blended student enrollment for state aid purposes was 706 students. A decrease of 20 students from the prior year.

MORRICE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2003-2004 fiscal year was \$127,408.

Debt Retirement Fund

The districts debt retirement fund balance increased by \$4,772. The fund balance is restricted to use for payments on bonded debt. The funds had expenditures of \$167,520 in paying the required interest and principal payments of the school's bonded debt. The majority of the funds revenue is derived from tax collections. An analysis of them is as follows:

1. Debt Fund Property and Industrial Facility In Lieu of Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the District collects IFT (Industrial Facilities Taxes) In Lieu of Taxes that are essentially taxed at 50 percent of the regular tax rate.

For 2003-2004, the District's debt millage levy was 2.04 mills that generated revenue of \$172,292.

Special Revenue Funds

The districts special revenue funds provide food service and athletic opportunities to students. During the year the fund balances increased by \$6,160.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$5,195,433	\$5,195,433	\$5,035,752	0.00%	-3.07%
Expenditures	5,436,254	5,367,641	5,224,002	-1.26%	2.68%
<u>TOTAL</u>	<u>(\$240,821)</u>	<u>(\$172,208)</u>	<u>(\$188,250)</u>		

MORRICE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Morrice Area Schools amends its budget during the school year. The June, 2004 budget amendment was the final budget for the fiscal year.

Original vs. Final Budgets

Revenues

There was no change between original and final budgets.

Expenditures

Instruction expenditures were reduced between the original and final budgets.

Actual Results vs. Final Budgets

Revenues

Significant differences between actual results and final revenue budgets were primarily from reduced state revenue.

Expenditures

Actual expenditures were less than budgeted expenditures due to cost reduction in many areas with no one significant area.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-1-03	Increases 6-30-04	Principal Payments 6-30-04	Principal Balance 6-30-04
General Obligation & Durant Bonds	\$1,132,278	\$0	\$190,000	\$942,278
Capital Lease Payable	0	76,342	25,447	50,895
Compensated Absences	36,570	0	4,790	31,780
<u>Total Long-Term Debt</u>	<u>\$1,168,848</u>	<u>\$76,342</u>	<u>\$220,237</u>	<u>\$1,024,953</u>

The district obtained 98 computers on a capital lease.

MORRICE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION: (Continued)

B. Capital Assets

The district's net investment in capital assets decreased by \$133,240 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
Capital Assets	\$5,179,448	\$0	\$0	\$5,179,448
Less: Accumulated Depreciation	(3,526,190)	(133,240)	0	(3,659,430)
<u>Net Investment Capital Outlay</u>	<u>\$1,653,258</u>	<u>(\$133,240)</u>	<u>\$0</u>	<u>\$1,520,018</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Morrice Area Schools.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$734,598
Due from Other Governmental Units	935,442
Inventory	8,102
Total Current Assets	<u>\$1,678,142</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	5,179,448
Less: Accumulated Depreciation	<u>(3,659,430)</u>
Total Noncurrent Assets	<u>\$1,520,018</u>
<u>TOTAL ASSETS</u>	<u>\$3,198,160</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	115,653
State Aid Anticipation Note Payable	900,000
Accrued Expenses	7,703
Salaries Payable	372,437
Current Portion of Long-Term Obligations	120,000
Total Current Liabilities	<u>\$1,515,793</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>904,953</u>
<u>TOTAL LIABILITIES</u>	<u>\$2,420,746</u>
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	526,845
Restricted for:	
Debt Service	52,475
Unrestricted	198,094
<u>TOTAL NET ASSETS</u>	<u><u>\$777,414</u></u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
STATEMENT OF ACTIVITIES
JUNE 30, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$3,357,483	\$0	\$507,439	(\$2,850,044)
Support Services	1,854,413	29,948	101,708	(1,722,757)
Food Service	206,247	127,976	78,004	(267)
Athletics	45,110	30,260	0	(14,850)
Interest on Long-Term Obligations	60,223	0	0	(60,223)
Depreciation - Unallocated	112,631	0	0	(112,631)
<u>TOTALS</u>	<u>\$5,636,107</u>	<u>\$188,184</u>	<u>\$687,151</u>	<u>(\$4,760,772)</u>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes	299,700
State Aid	4,259,520
Investment Earnings	3,151
Miscellaneous	24,035
Total General Revenues and Transfers	<u>\$4,586,406</u>
Change in Net Assets	(174,366)

Net Assets - Beginning - As Restated	<u>951,780</u>
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<u>Net Assets - Ending</u>	<u>\$777,414</u>
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See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$651,809	\$82,789	\$734,598
Due from Other Funds	0	7,724	7,724
Due from Other Governmental Units	934,183	1,259	935,442
Inventory	0	8,102	8,102
<u>TOTAL ASSETS</u>	<u>\$1,585,992</u>	<u>\$99,874</u>	<u>\$1,685,866</u>
<u>LIABILITIES</u>			
Accounts Payable	\$115,653	\$0	\$115,653
State Aid Anticipation Note Payable	900,000	0	900,000
Due to Other Funds	7,724	0	7,724
Salaries Payable	372,437	0	372,437
Total Liabilities	\$1,395,814	\$0	\$1,395,814
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	8,102	8,102
Debt Retirement	0	52,475	52,475
Unreserved:			
Undesignated, Reported In:			
General Fund	190,178	0	190,178
School Service Funds	0	39,297	39,297
Total Fund Balances	<u>\$190,178</u>	<u>\$99,874</u>	<u>\$290,052</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$1,585,992</u>	<u>\$99,874</u>	<u>\$1,685,866</u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total Governmental Fund Balances:		\$290,052
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$5,179,448 and the accumulated depreciation is \$3,659,430		1,520,018
Accrued Interest on Long-Term Debt		(7,703)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$942,278	
Capital Lease Payable	50,895	
Compensated Abscesses	31,780	
Total Long-Term Liabilities	<u> </u>	<u>(1,024,953)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u><u>\$777,414</u></u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$151,845	\$347,985	\$499,830
State Sources	4,673,419	14,169	4,687,588
Federal Sources	97,810	63,835	161,645
Total Revenues	\$4,923,074	\$425,989	\$5,349,063
<u>EXPENDITURES</u>			
Current:			
Instruction	3,357,483	0	3,357,483
Student Services	263,492	0	263,492
Instructional Support	187,269	0	187,269
General Administration	337,689	0	337,689
School Administration	339,129	0	339,129
Business Administration	11,937	0	11,937
Operation & Maintenance of Plant	544,550	0	544,550
Transportation	160,039	0	160,039
Special Revenue	0	247,537	247,537
Debt Service	0	167,520	167,520
Total Expenditures	\$5,201,588	\$415,057	\$5,616,645
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(\$278,514)	\$10,932	(\$267,582)
<u>OTHER FINANCING SOURCES (USES)</u>	90,264	0	90,264
Net Change in Fund Balance	(\$188,250)	\$10,932	(\$177,318)
<u>FUND BALANCE - BEGINNING</u>	378,428	88,942	467,370
<u>FUND BALANCE - ENDING</u>	\$190,178	\$99,874	\$290,052

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Total net change in fund balances - governmental funds	(\$177,318)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(133,240)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	215,447
Proceeds from Capital Lease	(76,342)
Change in accrued interest on long-term liabilities	(7,703)
Decrease in accrued compensated absences	<u>4,790</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$174,366)</u></u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Trust & Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$35,671	\$2,995	\$38,666
<u>LIABILITIES</u>			
Due to Student Groups	<u>35,671</u>	<u>0</u>	<u>35,671</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$2,995</u>	<u>\$2,995</u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Interest	\$23
Donations	1,505
Total Revenue	<u>\$1,528</u>
<u>EXPENDITURES</u>	
Scholarships	<u>2,121</u>
<u>CHANGE IN NET ASSETS</u>	(\$593)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>3,588</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$2,995</u></u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Morrice Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits - The Board of Education authorized the following financial institutions for the deposit of the District's funds for the year ended June 30, 2004:

The District had petty cash of \$150.00 classified as cash and cash equivalents.

The District's deposits are in accordance with statutory authority.

At June 30, 2004, the carrying amount of the School District's deposits was \$773,264 and the bank balance was \$848,623. \$152,475 of the bank balance was covered by federal depository insurance and \$696,148 was uninsured and uncollateralized.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

4) DEPOSITS AND INVESTMENTS (Continued)

Investments - The School District's investments are required to be categorized to give an indication of the level of risk assumed by the District at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent but not in the School District's name.

The District had no investments at June 30, 2004.

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 843,215
Federal Grants	92,227
<u>TOTAL</u>	<u>\$ 935,442</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2004, the District had no estimated claims payable in conjunction with the program.

8) SHORT-TERM DEBT

The District borrowed \$900,000 at 1.54% interest per annum on August 22, 2003, from Chemical Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note matures August 21, 2004.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$3,740,414	\$0	\$0	\$3,740,414
Land Improvements	1,074,557	0	0	1,074,557
Equipment and Furniture	31,607	0	0	31,607
Vehicles	332,870	0	0	332,870
Totals at Historical Cost	\$5,179,448	\$0	\$0	\$5,179,448
Less: Accumulated Depreciation				
Buildings and Improvements	(2,194,474)	(67,174)	0	(2,261,648)
Land Improvements	(988,431)	(49,403)	0	(1,037,834)
Equipment and Furniture	(25,682)	(1,396)	0	(27,078)
Vehicles	(317,603)	(15,267)	0	(332,870)
Total Accumulated Depreciation	(\$3,526,190)	(\$133,240)	\$0	(\$3,659,430)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$1,653,258</u>	<u>(\$133,240)</u>	<u>\$0</u>	<u>\$1,520,018</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 0
Support Services	16,789
Food Service	1,031
Athletics	2,789
Unallocated	112,631
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 133,240</u>

10) GENERAL LONG-TERM DEBT

A) 1992 Serial Bonds

Morrice Area Schools issued 1992 Serial Bonds dated August 1, 1992 in the aggregate amount of \$350,000.00. These bonds require annual payments of principal and interest. The interest rates range from 6.0% to 6.3% per annum. The principal balance at June 30, 2004 was \$150,000.

B) 1994 Energy Conservation Bonds

Morrice Area Schools issued 1994 Energy Conservation Bonds dated June 1, 1994 in the aggregate amount of \$580,000.00. These bonds require annual payments of principal and interest. The interest rates range from 5.65% to 5.90% per annum. The principal balance at June 30, 2004 was \$0.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

10) GENERAL LONG-TERM DEBT (Continued)

C) 1997 Serial Bonds

Morrice Area Schools issued 1997 Serial Bonds dated November 1, 1997 in the aggregate amount of \$1,125,000.00. These bonds require annual payments of principal and interest. The interest rates range from 4.20% to 5.10% per annum. The principal balance at June 30, 2004 was \$765,000.

D) Durant Resolution Package Bonds

Morrice Area Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$56,485.60 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2004 was \$27,278. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

E) Capital Leases Payable

Morrice Area Schools is indebted to Shiawassee Regional Education Service District for the purchase of 98 computers. The leases originated August 7, 2003 in the total amount of \$76,342, bearing interest at approximately 2% per annum. The leases call for 3 annual payments of \$25,447 plus interest.

F) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2004 are as follows:

	BONDS PAYABLE	CAPITAL LEASE	INTEREST	TOTAL
June 30, 2005	\$120,000	\$25,447	\$47,324	\$192,771
June 30, 2006	122,067	25,448	41,613	189,128
June 30, 2007	127,165	0	34,943	162,108
June 30, 2008	127,268	0	28,368	155,636
June 30, 2009	87,376	0	21,744	109,120
June 30, 2010-2013	358,402	0	47,626	406,028
<u>TOTAL</u>	<u>\$942,278</u>	<u>\$50,895</u>	<u>\$221,618</u>	<u>\$1,214,791</u>

The payment dates of sick days payable is undeterminable.

The interest expenditures on long-term obligations for the year were \$57,139.

G) Changes in General Long-Term Debt

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
Durant Bonds	\$27,278	\$0	\$0	\$27,278	\$0
General Obligation Bonds	1,105,000	0	190,000	915,000	120,000
Capital Lease Payable	0	76,342	25,447	50,895	25,447
Compensated Absences	36,570	0	4,790	31,780	0
<u>Total Governmental Activities</u>	<u>\$1,168,848</u>	<u>\$76,342</u>	<u>\$220,237</u>	<u>\$1,024,953</u>	<u>\$145,447</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

11) RESTATEMENT OF GOVERNMENT-WIDE NET ASSETS

For the fiscal year ended June 30, 2004, the School District implemented GASB Statement 34. As a result, capital assets and accumulated depreciation were recorded for the first time. Net assets were restated as of July 1, 2003 for the recording of accumulated depreciation. See July 1, 2003 balances illustrated in Note 9.

12) INTERFUND ACTIVITY

Interfund balances at June 30, 2004 consisted of the following:

DUE FROM	
DUE TO	SPECIAL
	REVENUE
	FUND
General Fund	\$7,724

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

13) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the MPSERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2004, 2003 and 2002 were \$405,397, \$408,858, and \$366,152, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

14) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

15) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantor agencies.

REQUIRED
SUPPLEMENTARY
INFORMATION

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$222,402	\$222,402	\$151,845	(\$70,557)
State Sources	4,785,586	4,785,586	4,673,419	(112,167)
Federal Sources	128,445	128,445	97,810	(30,635)
Total Revenues	<u>\$5,136,433</u>	<u>\$5,136,433</u>	<u>\$4,923,074</u>	<u>(\$213,359)</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	3,438,094	3,397,017	3,357,483	39,534
Student Services	273,949	268,566	263,492	5,074
Instructional Support	229,529	225,971	187,269	38,702
General Administration	348,075	342,659	337,689	4,970
School Administration	342,525	340,751	339,129	1,622
Business Administration	10,000	10,000	11,937	(1,937)
Operation & Maintenance of Plant	579,937	567,361	544,550	22,811
Transportation	176,257	175,056	160,039	15,017
Total Expenditures	<u>\$5,398,366</u>	<u>\$5,327,381</u>	<u>\$5,201,588</u>	<u>\$125,793</u>
Excess of Revenues Over Expenditures	<u>(\$261,933)</u>	<u>(\$190,948)</u>	<u>(\$278,514)</u>	<u>(\$87,566)</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>21,112</u>	<u>18,740</u>	<u>90,264</u>	<u>71,524</u>
Net Change in Fund Balance	<u>(\$240,821)</u>	<u>(\$172,208)</u>	<u>(\$188,250)</u>	<u>(\$16,042)</u>
<u>FUND BALANCE - BEGINNING</u>			<u>378,428</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$190,178</u>	

OTHER SUPPLEMENTAL
INFORMATION

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2004

	Special Revenue Fund	Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$30,314	\$52,475	\$82,789
Due from Other Funds	7,724	0	7,724
Due from Other Governmental Units	1,259	0	1,259
Inventory	8,102	0	8,102
<u>TOTAL ASSETS</u>	<u>\$47,399</u>	<u>\$52,475</u>	<u>\$99,874</u>
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	\$8,102	\$0	\$8,102
Debt Retirement	0	52,475	52,475
Unreserved:			
Undesignated, Reported In:			
School Service Fund	39,297	0	39,297
<u>TOTAL FUND BALANCES</u>	<u>\$47,399</u>	<u>\$52,475</u>	<u>\$99,874</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Fund	Debt Service Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$175,693	\$172,292	\$347,985
State Sources	14,169	0	14,169
Federal Sources	63,835	0	63,835
Total Revenues	<u>\$253,697</u>	<u>\$172,292</u>	<u>\$425,989</u>
<u>EXPENDITURES</u>			
Special Revenue	247,537	0	247,537
Debt Service	0	167,520	167,520
Total Expenditures	<u>\$247,537</u>	<u>\$167,520</u>	<u>\$415,057</u>
Net Change in Fund Balance	<u>\$6,160</u>	<u>\$4,772</u>	<u>\$10,932</u>
<u>NET ASSETS - BEGINNING</u>	<u>41,239</u>	<u>47,703</u>	<u>88,942</u>
<u>NET ASSETS - ENDING</u>	<u>\$47,399</u>	<u>\$52,475</u>	<u>\$99,874</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2004

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$22,382	\$7,932	\$30,314
Due from Other Funds	7,724	0	7,724
Due from Other Governmental Units	1,259	0	1,259
Inventory	<u>8,102</u>	<u>0</u>	<u>8,102</u>
<u>TOTAL ASSETS</u>	<u>\$39,467</u>	<u>\$7,932</u>	<u>\$47,399</u>
<u>FUND EQUITY</u>			
Reserved for Inventory	\$8,102	\$0	\$8,102
Unreserved and Undesignated	<u>31,365</u>	<u>7,932</u>	<u>39,297</u>
<u>TOTAL FUND EQUITY</u>	<u>\$39,467</u>	<u>\$7,932</u>	<u>\$47,399</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$127,976	\$0	\$127,976
Athletic Activities	0	30,260	30,260
Earnings on Investments and Deposits	115	46	161
Other Local Sources	722	16,574	17,296
Total Local Sources	<u>\$128,813</u>	<u>\$46,880</u>	<u>\$175,693</u>
<u>State Sources</u>			
State Reimbursements	14,169	0	14,169
<u>Federal Sources</u>			
Federal Reimbursements	48,162	0	48,162
Commodities	15,673	0	15,673
Total Federal Sources	<u>\$63,835</u>	<u>\$0</u>	<u>\$63,835</u>
Total Revenues	<u>\$206,817</u>	<u>\$46,880</u>	<u>\$253,697</u>
<u>EXPENDITURES</u>			
Salaries - Non-Professional	50,291	380	50,671
Insurances	1,405	0	1,405
Fica, Retirement, Etc.	10,380	0	10,380
Purchased Services	5,156	16,286	21,442
Supplies and Materials	15,736	14,029	29,765
Capital Outlay	14,133	8,344	22,477
Other	108,115	3,282	111,397
Total Expenditures	<u>\$205,216</u>	<u>\$42,321</u>	<u>\$247,537</u>
<u>EXCESS REVENUES OVER EXPENDITURES</u>	<u>\$1,601</u>	<u>\$4,559</u>	<u>\$6,160</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$37,866</u>	<u>\$3,373</u>	<u>\$41,239</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$39,467</u>	<u>\$7,932</u>	<u>\$47,399</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
DEBT RETIREMENT FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2004

	1992 DEBT	1997 DEBT	TOTALS
<u>ASSETS</u>			
Cash and Cash Equivalents	\$14,426	\$38,049	\$52,475
<u>TOTAL ASSETS</u>	<u>\$14,426</u>	<u>\$38,049</u>	<u>\$52,475</u>
<u>FUND EQUITY</u>			
Reserved for Debt Retirement	\$14,426	\$38,049	\$52,475
<u>TOTAL FUND EQUITY</u>	<u>\$14,426</u>	<u>\$38,049</u>	<u>\$52,475</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
DEBT RETIREMENT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	<u>1992</u> <u>DEBT</u>	<u>1997</u> <u>DEBT</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Property Taxes	\$35,860	\$136,432	\$172,292
<u>EXPENDITURES</u>			
Redemption of Bonds	30,000	85,000	115,000
Interest Expense	11,275	40,545	51,820
Agent and Other Fees	400	300	700
Total Expenditures	<u>\$41,675</u>	<u>\$125,845</u>	<u>\$167,520</u>
<u>EXCESS REVENUES OVER (UNDER)</u> <u>EXPENDITURES</u>	<u>(\$5,815)</u>	<u>\$10,587</u>	<u>\$4,772</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$20,241</u>	<u>\$27,462</u>	<u>\$47,703</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$14,426</u>	<u>\$38,049</u>	<u>\$52,475</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2004

REVENUES FROMLocal Sources

Property Tax Levy	\$127,408
Earnings on Investments and Deposits	2,990
Community Education	11,660
Tuition	2,710
Rentals	338
Other Local Revenues	6,739
Total Revenues from Local Sources	<u>\$151,845</u>

State Sources

Unrestricted	
State Aid - Foundation - Sec. 20	4,259,520
Restricted	
Special Education	226,471
Adult Education	77,592
Vocational Education - Sec. 61a.1	1,976
Durant	4,270
Gifted and Talented	297
At Risk	75,773
Other State Grants	597
Grants from ISD	26,923
Total Revenues from State Sources	<u>\$4,673,419</u>

Federal Sources

Title I	61,668
Technology Literacy	1,493
Improving Teacher Quality	28,483
Other Grants	6,166
Total Revenues from Federal Sources	<u>\$97,810</u>
Total Revenues	<u>\$4,923,074</u>

OTHER FINANCING SOURCES

County Special Education Tax	97,438
Transfers from Other Districts	15,240
Total Other Financing Sources	<u>\$112,678</u>

TOTAL REVENUES AND OTHER
FINANCING SOURCES

\$5,035,752

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$935,396
Salaries - Non-Professional	44,986
Insurance	203,526
Fica, Retirement, Etc.	204,870
Other Benefits	18,955
Purchased Services	15,894
Supplies and Materials	21,392
Capital Outlay	208
Other	3,152
Total Elementary	<u>\$1,448,379</u>

High School

Salaries - Professional	808,146
Salaries - Non-Professional	33,817
Insurances	181,546
Fica, Retirement, Etc.	181,445
Other Benefits	18,955
Purchased Services	38,968
Supplies and Materials	37,664
Other	2,560
Total High School	<u>\$1,303,101</u>

Total Basic Programs	\$2,751,480
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ADDED NEEDSSpecial Education

Salaries - Professional	214,026
Salaries - Non-Professional	18,726
Insurances	33,902
Fica, Retirement, Etc.	50,374
Supplies and Materials	462
Other	252
Total Special Education	<u>\$317,742</u>

Compensatory Education

Salaries - Professional	55,720
Salaries - Non-Professional	14,812
Insurances	12,328
Fica, Retirement, Etc.	13,552
Purchased Services	1,862
Supplies and Materials	1,845
Capital Outlay	11,336
Total Compensatory Education	<u>\$111,455</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION (Continued)ADDED NEEDS (Continued)Vocational Education

Salaries - Professional	\$47,064
Salaries - Non-Professional	420
Insurances	9,858
Fica, Retirement, Etc.	9,912
Purchased Services	1,200
Supplies and Materials	655
Total Vocational Education	<u>\$69,109</u>

Total Added Needs\$498,306ADULT EDUCATION

Salaries - Professional	64,535
Salaries - Non-Professional	560
Insurances	12,029
Fica, Retirement, Etc.	13,528
Purchased Services	3,916
Supplies and Materials	12,801
Other	328
Total Adult Education	<u>\$107,697</u>

TOTAL INSTRUCTION

\$3,357,483

SUPPORT SERVICESStudent Services

Salaries - Professional	184,514
Insurances	38,305
Fica, Retirement, Etc.	37,317
Purchased Services	778
Supplies and Materials	2,568
Other	10
Total Student Services	<u>\$263,492</u>

Instructional Staff

Salaries - Professional	22,895
Salaries - Non-Professional	34,356
Insurances	11,885
Fica, Retirement, Etc.	11,678
Purchased Services	44,033
Supplies and Materials	24,515
Capital Outlay	37,679
Other	228
Total Instructional Staff	<u>\$187,269</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)General AdministrationBoard of Education

Salaries - Professional	\$5,190
Purchased Services	47,660
Supplies and Materials	2,220
Other	2,273
Total Board of Education	<u>\$57,343</u>

Executive Administration

Salaries - Professional	88,431
Salaries - Non-Professional	95,949
Insurances	38,277
Fica, Retirement, Etc.	38,899
Other Benefits	2,400
Purchased Services	12,956
Supplies and Materials	1,294
Capital Outlay	735
Other	1,405
Total Executive Administration	<u>\$280,346</u>

Total General Administration	\$337,689
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School Administration

Salaries - Professional	149,788
Salaries - Non-Professional	82,761
Insurances	48,277
Fica, Retirement, Etc.	48,608
Purchased Services	7,279
Supplies and Materials	148
Capital Outlay	1,000
Other	1,268
Total School Administration	<u>\$339,129</u>

Business Office

Other	11,937
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Operation and Maintenance of Plant

Salaries - Professional	78,713
Salaries - Non-Professional	82,642
Insurances	33,497
Fica, Retirement, Etc.	33,679
Purchased Services	284,528
Supplies and Materials	27,734
Capital Outlay	2,664
Other	1,093
Total Operation and Maintenance of Plant	<u>\$544,550</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)

Transportation

Salaries - Professional	\$23,920
Salaries - Non-Professional	59,619
Insurances	12,800
Fica, Retirement, Etc.	19,545
Purchased Services	19,004
Supplies and Materials	23,643
Capital Outlay	1,217
Other	291
Total Transportation	<u>\$160,039</u>

TOTAL SUPPORT SERVICES

\$1,844,105

TOTAL EXPENDITURES

\$5,201,588

OTHER FINANCING USES

Interest on Loan	15,169
Other	7,245
Total Other Financing Uses	<u>\$22,414</u>

TOTAL EXPENDITURES AND OTHER
FINANCING USES

\$5,224,002

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
TRUST AND AGENCY FUNDS
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2003	RECEIPTS	DISBURSEMENTS	JUNE 30, 2004
Academic Challenge Team	\$38	\$0	\$0	\$38
Band Fund	47	0	0	47
Baseball Team	0	630	0	630
Boys Basketball Team	0	738	350	388
Bus Prof Amer	0	234	156	78
Cheerleaders	46	4,071	2,805	1,312
Class of 2000	6	0	0	6
Class of 2002	830	3	0	833
Class of 2003	1,163	4	0	1,167
Class of 2004	1,730	1,452	2,921	261
Class of 2005	914	3,244	2,534	1,624
Class of 2006	489	110	35	564
Class of 2007	663	2	60	605
Class of 2008	755	15	60	710
Class of 2009	0	192	0	192
Class of 2010	525	2	0	527
Elementary - Computer Fund	3,490	12	1,395	2,107
Elementary - Kindergarten Rooms	22	100	116	6
Elementary - Library	3,092	6,291	5,315	4,068
Elementary - Miscellaneous	1,666	719	641	1,744
Elementary - Student Council	157	1,132	427	862
Elementary - Young Authors	1,314	723	1,473	564
Environ Project	25	0	0	25
Farm Museum Fund	994	0	0	994
Football Team	0	1,260	0	1,260
Hosts Program	305	21	0	326
HS - Art	6	487	400	93
HS - Choir	2,662	2,050	1,276	3,436
HS - Library	172	91	0	263
HS - Miscellaneous	1,314	700	819	1,195
JH - Careers	529	2,443	1,734	1,238
JH - Quest	76	0	0	76
JH - Reading	279	1	0	280
JH - Student Council	695	284	175	804
National Honor Society	217	\$796	\$828	185
Newspaper	260	351	140	471
Perkin - Grade 5	817	243	520	540
Preschool - Arts	0	1,745	86	1,659
SADD	468	2	0	470
Shop	769	0	0	769
Softball Team	0	342	0	342
STAND	370	1	0	371

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
TRUST AND AGENCY FUNDS
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2003	RECEIPTS	DISBURSEMENTS	JUNE 30, 2004
Student Bookstore	\$67	\$0	\$0	\$67
Student Council	879	3,628	3,506	1,001
Track Team	0	342	0	342
Volleyball Team	0	450	0	450
Yearbook	802	6,824	6,946	680
<u>TOTAL</u>	<u>\$28,653</u>	<u>\$41,736</u>	<u>\$34,718</u>	<u>\$35,671</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

<u>MORRICE SCHOOL EDUCATION ASSOCIATION</u>	
<u>BALANCE - JULY 1, 2003</u>	\$52
<u>REVENUE</u>	
Donations	400
<u>EXPENDITURES</u>	
Scholarship Awards	400
<u>BALANCE - JUNE 30, 2004</u>	<u>\$52</u>
<u>SUSAN WINEGAR SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2003</u>	\$1,435
<u>REVENUE</u>	
Interest	5
<u>EXPENDITURES</u>	
Scholarship Awards	100
<u>BALANCE - JUNE 30, 2004</u>	<u>\$1,340</u>
<u>SHAW - STANLEY SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2003</u>	\$6
<u>BALANCE - JUNE 30, 2004</u>	<u>\$6</u>
<u>KITTI MOREY MEMORIAL</u>	
<u>BALANCE - JULY 1, 2003</u>	\$1,053
<u>REVENUE</u>	
Interest	4
<u>EXPENDITURES</u>	
Scholarship Awards	300
<u>BALANCE - JUNE 30, 2004</u>	<u>\$757</u>
<u>D. FAHRENBACH SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2003</u>	\$988
<u>REVENUE</u>	
Interest	14
<u>EXPENDITURES</u>	
Scholarship Awards	200
<u>BALANCE - JUNE 30, 2004</u>	<u>\$802</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

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	<u>PAT KAY MEMORIAL SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2003</u>		\$0
<u>REVENUE</u>		
Donations		605
<u>EXPENDITURES</u>		
Scholarship Awards		<u>621</u>
<u>BALANCE - JUNE 30, 2004</u>		<u>(\$16)</u>
<hr/>		
	<u>J. KINNEY SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2003</u>		\$41
<u>REVENUE</u>		
Donations		500
<u>EXPENDITURES</u>		
Scholarship Awards		<u>500</u>
<u>BALANCE - JUNE 30, 2004</u>		<u>\$41</u>
<hr/>		
	<u>MISC. ACADEMIC SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2003</u>		<u>\$13</u>
<u>BALANCE - JUNE 30, 2004</u>		<u>\$13</u>
<hr/>		
	<u>ALL SCHOLARSHIP FUNDS</u>	
<u>BALANCE - JUNE 30, 2004</u>		<u>\$2,995</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
GENERAL OBLIGATION SERIAL BONDS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2004

1992 DEBT SERVICE FUND

DATE OF ISSUE - August 1, 1992

Original amount of issue - \$350,000.00

<u>PAYMENT DATE</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL REQUIREMENT</u>
2004-2005	\$4,707	\$4,707	6.25%	\$35,000	\$44,414
2005-2006	3,614	3,614	6.25%	35,000	42,228
2006-2007	2,520	2,520	6.30%	40,000	45,040
2007-2008	1,260	1,260	6.30%	40,000	42,520
<u>TOTAL</u>	<u>\$12,101</u>	<u>\$12,101</u>		<u>\$150,000</u>	<u>\$174,202</u>

1997 DEBT SERVICE FUND

DATE OF ISSUE - November 1, 1997

Original amount of issue - \$1,125,000.00

<u>PAYMENT DATE</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL REQUIREMENT</u>
2004-2005	\$18,403	\$18,403	4.50%	\$85,000	\$121,806
2005-2006	16,490	16,490	4.60%	85,000	117,980
2006-2007	14,535	14,535	4.65%	85,000	114,070
2007-2008	12,559	12,559	4.70%	85,000	110,118
2008-2009	10,561	10,561	4.80%	85,000	106,122
2009-2010	8,521	8,521	4.90%	85,000	102,042
2010-2011	6,439	6,439	5.00%	85,000	97,878
2011-2012	4,314	4,314	5.05%	85,000	93,628
2012-2013	2,168	2,168	5.10%	85,000	89,336
<u>TOTAL</u>	<u>\$93,990</u>	<u>\$93,990</u>		<u>\$765,000</u>	<u>\$952,980</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN
GENERAL OBLIGATION SERIAL BONDS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2004

1998 DURANT RESOLUTION PACKAGE BONDS

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$56,485.60

	INTEREST REQUIREMENT	INTEREST RATE	PRINCIPAL REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2005	\$0	4.761353%	\$0	\$0
2006	932	4.761353%	2,067	2,999
2007	833	4.761353%	2,165	2,998
2008	730	4.761353%	2,268	2,998
2009	622	4.761353%	2,376	2,998
2010	509	4.761353%	2,489	2,998
2011	391	4.761353%	2,608	2,999
2012	3,706	4.761353%	10,443	14,149
2013	136	4.761353%	2,862	2,998
<u>TOTAL</u>	<u>\$7,859</u>		<u>\$27,278</u>	<u>\$35,137</u>



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

November 5, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Morrice Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morrice Area Schools, as of and for the year ended June 30, 2004, which collectively comprise the Morrice Area Schools' basic financial statements and have issued our report thereon November 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Morrice Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Morrice Area Schools, in a separate letter dated November 5, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morrice Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Morrice Area Schools, in a separate letter dated November 5, 2004.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC

LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

November 5, 2004

To the Board of Education of
Morrice Area Schools

In planning and performing our audit of the financial statements of Morrice Area Schools for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Morrice Area Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The following items of immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2004, Morrice Area Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

FUTURE ISSUES

1. Chart of Accounts

As you may be aware of, the Center for Educational Performance and Information (CEPI) has implemented a new upload application/database for financial reporting for districts. This new application/database is called the Financial Information Database (FID). For the fiscal year 2003 - 2004 you will be required to submit your financial data via the FID. The EDN/Form B submission process has been eliminated and is no longer available. The due date for the 2003 - 2004 FID submission is November 15, 2004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Morrice Area Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lewis & Knopf P.C.
LEWIS & KNOPF, P.C.

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